

Financial Sustainability Review – Merthyr Tydfil County Borough Council

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Summary report

Why we did this audit

Our audit duties

- 1 The Council has to put in place arrangements to get value for money for the resources it uses, and the Auditor General has to be satisfied that it has done this.
- 2 We undertook this audit to help discharge the Auditor General's duties under section 17 of the Public Audit (Wales) Act 2004. It may also inform a study for improving value for money under section 41 of the 2004 Act, and/or an examination undertaken by the Auditor General under section 15 of the Well-being of Future Generations Act (Wales) 2015.

Our objectives for this audit

- 3 To provide assurance that councils have proper arrangements to support their financial sustainability.
- 4 To explain councils' financial position and the key budget pressures and risks to their financial sustainability.

Why financial sustainability is important

- 5 A combination of factors including the rising cost of delivering services and increased demand for some services is placing significant pressure on local government finances.
- 6 Despite these pressures, councils are still required to set a balanced budget whilst delivering a number of statutory services. Councils also provide a range of non-statutory services that communities rely on.
- 7 In this context, it is important that councils develop a strategic approach to their financial sustainability over the longer term to help them to secure value for money in the use of their resources.

What we looked at and what does good look like¹

- 8 We reviewed the Council's strategic approach to support its financial sustainability, its understanding of its current financial position, and its arrangements for reporting and oversight of its financial sustainability. This audit was limited to a consideration

¹ Defined as 'what should be' according to laws or regulations, 'what is expected' according to best practice, or 'what could be', given better conditions.

of the arrangements that the Council has put in place to support its financial sustainability. It was not a review of the Council's wider financial management, or of the individual financial decisions that the Council has made or intends to make.

- 9 We recognise that some factors which will impact on councils' financial sustainability will be beyond the scope of this audit, as this audit focused on the arrangements that councils are putting in place. However, where we identified common issues through our fieldwork that go beyond the arrangements that councils have put in place, we will report on these in our planned national summary report.
- 10 We also recognise the unprecedented financial challenges that councils have faced for many years and are likely to continue to face for at least the medium term. This includes the public sector funding pressures that followed the financial crisis in 2008 and the impact of the pandemic both at the time and its continued aftereffects. More recently councils have also faced significant real-terms reductions in spending power as a consequence of the fastest increase in inflation for decades. Alongside all of these events there have also been significant increases in the demand for some services, including for example the impact of an ageing population and the resulting increased demand for some services. These factors are largely outside the control of any individual council.
- 11 Against this longer-term background of financial challenges, councils have needed to respond to more recent challenges at pace and we understand that inevitably in many, if not all councils, some of the specific details of how financial pressures will be tackled over the medium-term are still to be determined. This report sets out our view on the council's financial arrangements, and where appropriate where we think these could be strengthened to help improve the council's financial sustainability over the medium-term. Our report should be viewed in the context of these wider and longer-term financial pressures.
- 12 The audit sought to answer the overall question – **Does the Council have proper arrangements to support its financial sustainability?** To do this we looked to answer the following questions:
- Does the Council have a clear strategy for its long-term financial sustainability?
 - Is the Council's financial strategy supported by a clear understanding of its financial position?
 - Do the Council's reporting arrangements support regular oversight of its financial sustainability?
- 13 The audit criteria that we used to assess the Council's arrangements against each of our questions is set out in **Appendix 1**. This has been informed by our cumulative knowledge, as well as drawing on some publications produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).



Our audit methods and when we undertook the audit

- 14 Our findings are based on document reviews and interviews with a sample of councillors and senior officers. The evidence we have used to inform our findings is limited to these sources. We undertook this work during May and June 2024.
- 15 We are undertaking this work at each of the 22 principal councils in Wales and, as well as reporting locally to each council, we also intend to produce a national report.



What we found

- 16 Overall, we found that **there are significant risks to the Council's financial sustainability as it does not currently have a plan to address its medium-term funding gap and does not have a long-term approach to improve its financial sustainability**. We set out below why we reached this conclusion.
- 17 A clear, robust and agreed financial strategy is important to identify how the Council will respond to anticipated future funding pressures, and particularly how the Council will meet its projected funding gap in the short, medium and long term. We found that **the Council continues to take a short-term approach to addressing its financial position and lacks capacity at a senior officer level to develop a long-term approach to improve its financial sustainability**.
- 18 The Council has a three-year Medium Term Financial Plan (MTFP) 2024-25 to 2026-27. The Council has identified a funding gap of £18.9 million over this period, but it has not identified how it will address this gap.
- 19 It has previously been reported to the Council the need to take a medium to long-term approach to its financial planning²³. This finding remains relevant. The Council has previously had a Recovery, Transformation and Improvement Plan, but its approach continues to be focused on one year. In setting the 2024-25 budget, the Council relied on setting individual directorates savings targets and using reserves. This presents a risk to the Council's future financial sustainability.
- 20 The Council is in the very early stages of considering its medium to long term approach to financial sustainability and is actively involving members in designing the approach. The Council intends to have an agreed transformative approach to

² [Merthyr Tydfil County Borough Council – Financial Sustainability Assessment | Audit Wales](#)

³ [Written Statement - Supporting Document - Rapid assessment for Welsh Government - English.pdf](#)

improve its financial sustainability by summer 2024 in readiness to inform the 2025-26 budget and next iteration of its MTFP. However, transformation plans can take a long time to develop, gain approval and implement to have the intended outcomes. The Council will therefore need to factor in appropriate timelines to realise the benefits from this process.

- 21 We have previously reported⁴ to the Council the need to address its lack of capacity and expertise to drive and sustain its transformation agenda. The Council responded by creating a new Corporate Director role with transformation in its remit. This additional Corporate Director role can also bolster senior management capacity. However, the Council has been unsuccessful in filling this position and at the time of our fieldwork, were once again advertising this key role. In the meantime, the Council remains without a dedicated officer responsible for leading and coordinating transformational activity.
- 22 There has also been a high turnover of staff in the Council's finance team during the year including at the statutory Section 151 officer level. The Council has recently appointed a new Director of Finance and has arranged temporary finance support from a neighbouring authority until the new officer joins. But the lack of stability and continuity in the team presents a risk to the Council at a time when it needs experience and expertise to help push ahead with its longer-term planning.
- 23 The Council used reserves to balance its 2023-24 budget. At this time, the Council stated it would not use reserves for the remainder of the MTFP period, recognising the unsustainable nature of this approach. However, the Council used reserves to balance the 2024-25 budget. In March 2023, the Council had £40.2 million of useable reserves. This is equivalent to 28.2% of the Council's annual spending on services. The level of reserves does provide the Council with a degree of financial stability while it agrees a long-term approach.
- 24 However, overall, the lack of strategic financial planning and capacity to drive forward a transformative approach at pace could lead to a continued short-term approach and unsustainable use of reserves, increasing its future financial challenge.
- 25 A thorough understanding of current and future funding pressures, alongside other risks to financial sustainability is important to ensure that the Council's financial strategy is well informed and appropriate to the scale of the financial challenge it faces. We found that **the Council has a good understanding of its service pressures and models reasonable assumptions to inform its budget, but it does not adjust its assumptions over the medium-term which could impact the accuracy of the identified budget gap.**

⁴ [Merthyr Tydfil County Borough Council – Assessment of Progress to Address Key Concerns | Audit Wales](#)

- 26 The Council used reasonable assumptions in developing its MTFP, but it did not adjust these assumptions across the period of the MTFP. In addition, the Council did not model its assumptions to enable a greater understanding of differing financial scenarios. The limited modelling risks impacting on the accuracy of the Council's projected medium-term funding gap.
- 27 The Council did benchmark some assumptions with other councils via a Welsh Local Government Association (WLGA) survey and through discussions at the Society of Welsh Treasurers.
- 28 The Council analysed its approach to setting fees and charges and completed a fees and charges benchmarking exercise. The Council learnt from this benchmarking and changed its approach to setting of fees and charges. These changes came into effect in setting the 2024-25 budget and development of the MTFP.
- 29 The Council has a good understanding of its key budget pressures and is actively exploring opportunities to reduce these pressures and the risks they present.
- 30 Clear, regular and transparent reporting arrangements are important to enable effective oversight of the Council's financial position, the action it is taking to ensure its financial sustainability and the impact of this on its local communities. We found that **there is regular budget monitoring reporting to senior officers and senior members, but the Council does not report on delivering its savings and without a long-term financial approach it cannot monitor or report on its impact.**
- 31 As the Council does not currently have a long-term financial strategy, there are no arrangements in place to monitor over the longer term. However, there are regular reporting arrangements to facilitate senior officer and senior member oversight of the Council's latest financial position. Cabinet receives quarterly budget monitoring reports and the Council's Budget Board, consisting of Cabinet members and senior officers, receive monthly reports. This arrangement should enable early insight into any emerging financial challenges.
- 32 There is no scrutiny involvement in in-year budget monitoring. Although scrutiny committees can call-in reports, this rarely happens.
- 33 The Council does not have a separate savings plan. All in-year savings, including those relating to increased fees and charges are built into base budgets. This means it is more difficult for members to scrutinise and monitor delivery of its approved savings. The separate reporting of progress on delivering savings would help members monitor progress, enable action to be taken to address concerns and help members make informed decisions when considering future savings proposals.
- 34 When proposing savings, the Council considers the impact of individual savings on service users. However, the Council does not report the potential cumulative impact of the savings on delivery of its well-being objectives or the impact on its communities to enable members to monitor and address any impacts.



Our recommendations for the Council

Exhibit 1: our recommendations for the Council

Recommendations

- R1 To support its financial sustainability, the Council needs to:
- 1.1 have a medium to long term approach to its financial planning to reduce the unsustainable use of reserves;
 - 1.2 model a range of assumptions over the medium term to strengthen the accuracy of its funding gap; and
 - 1.3 develop a savings plan to identify how it will meet its funding gap.
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- R2 To report on the impact of its financial approach, the Council should develop reporting arrangements to provide members with the impact of its financial position, savings plan and MTFP on local communities and delivery of its well-being objectives.

Appendix 1

Audit questions and criteria

Exhibit 2: overall question: Does the Council have proper arrangements to support its financial sustainability?

Level 2 questions	Criteria
Does the Council have a clear strategy for its long-term financial sustainability?	<ul style="list-style-type: none">• The Council has clearly set out its strategic approach to support its financial resilience over the short, medium, and long term.• The Council has a medium-term financial plan.• The Council's strategic approach is widely understood and supported by senior officers.• The Council has considered a wide range of options to improve its long-term financial sustainability, including comparison with other bodies.• The Council has identified all the savings it intends to make to meet its funding gap over the medium term, supported by well-evidenced plans based on reasonable assumptions.• The Council's strategy includes the strategic use of reserves to manage its savings programme over the medium term.• The Council has modelled the anticipated impact of its financial strategy over the medium term (e.g. potential service reductions and council tax levels on local communities).
Is the Council's financial strategy supported by a clear understanding of its financial position?	<ul style="list-style-type: none">• The Council has calculated its funding gap over the short to medium term based on reasonable assumptions.• The Council has benchmarked its assumptions with appropriate comparator bodies.• The Council has a good understanding of its key budget pressures in the medium and long term.• The Council has a track record of successfully addressing key budget pressures.• The Council has identified the key risks to its financial sustainability and has put in place mitigations.

Level 2 questions	Criteria
<p>Do the Council's reporting arrangements support regular oversight of its financial sustainability?</p>	<ul style="list-style-type: none"> • It is clear who is responsible for monitoring the Council's financial position, including its sustainability over the medium to long term. • The Council regularly reports its financial position to members to enable oversight and scrutiny. • The Council has arrangements to transparently report the impact/anticipated impact of its financial strategy on the achievement of its corporate objectives and on local communities to members and other stakeholders. • The Council's savings plan includes what has been agreed, how much progress has been made in implementation, and links to both its budget and medium-term financial plan. • The Council regularly reports progress in delivering planned savings to members to enable oversight and scrutiny.



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